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Forward-looking and value-added employer covenant advice from Deloitte

A commercial and risk-focused
approach



Introduction

We provide additional insights and add value in the approach to managing employer covenant risk by considering a sponsor's strength in the context of wider industry and market trends.

It is crucial for stakeholders of defined benefit pension schemes to understand the businesses that support them. The employer covenant includes the strength of the employer's financial position, prospects and markets as well as its legal obligation to fund the scheme's benefits. Employer events such as transactions, refinancing and restructuring can all impact significantly on the employer covenant. At the current time with new pensions legislation, evolving regulatory guidance and the rapidly changing economic environment keeping on top of the employer covenant position has become especially important.

Our team harnesses the breadth and depth of expertise from across Deloitte, giving us the ability to focus rapidly on the core business, industry trends and market issues facing the employer, scale up to assess a wider global group and its supply chain, or react to corporate transactions and restructuring.

We take a risk-focused and proportionate approach, providing a range of services which can be tailored for schemes of all sizes.

Our services



Covenant monitoring
and reviews



Restructuring and
transaction support



Strategy and
negotiations



PPF guarantee
analysis



Affordability and
recovery plans



Integrated Risk
Management



Our integrated approach

Deloitte's pensions advisory services team comprises of pensions, investment and covenant professionals and so take a holistic approach to identifying key risks as part of an integrated risk management approach - so covenant assessments are not simply a standalone exercise.

Deloitte's industry specialists provide relevant insights and trends that need to be considered in the context of the employer covenant and their implications for the medium to long-term funding and investment strategy.

This wealth of insight and knowledge enables us to reflect relevant Environmental, Social, Governance and market risks in covenant assessments.

By focusing on the key risks, we ensure efficiency and add value by considering how the covenant can shape consistent funding and investment strategies for better risk management.

Covenant assessments should not just be an update of a company's financial performance. A risk-focused approach to covenant monitoring and assessments can add real value to help shape pension funding and investment risk management strategies, and ultimately provide better outcomes for members and other stakeholders.

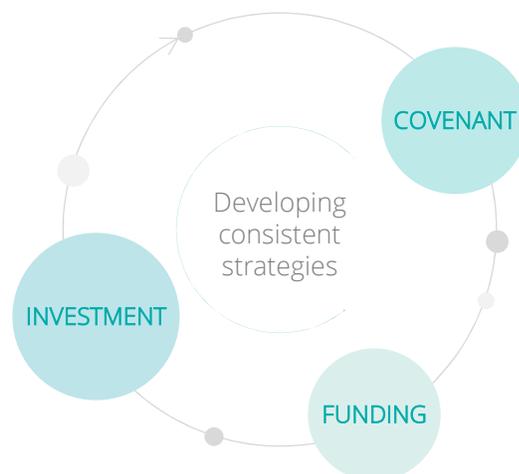
Paul Geeson
Deloitte Pensions and Covenant Partner

Our pensions advisory business draws on specialists from across the wider firm in Financial, Tax and Audit advisory.

Our wider financial expertise also provides commercial solutions for funding, investment and security mitigation options.

This approach to covenant assessments brings additional insights and value to help trustees develop consistent covenant, funding and investment risk management strategies.

A consistent integrated risk management strategy.



Employer covenant assessment

Supporting the triennial funding valuation process



- Assessing the strength of the employer covenant, summarising findings and recommendations in clear terms;
- Providing consistent covenant, funding and investment advice - ensuring the risks being taken within the scheme's investment strategy are consistent with its covenant strength; and
- Assisting with the dialogue with other pension stakeholders, including negotiation support.

Ongoing monitoring



- Develop a tailored dashboard to simplify and improve employer covenant monitoring;
- Recommend trigger levels to rapidly highlight areas of concern and identifying possible responses; and
- Deliver training to trustees, enabling them to identify and respond rapidly to future events that may impact employer covenant strength.

Affordability evaluation and recovery plan negotiation



Perform an **affordability assessment** based on employer projections, identifying potential constraints and suggesting a reasonable range of affordable contributions.



Work with the scheme actuary and investment advisor, developing an appropriate **recovery plan**, with support throughout **negotiations**.



Provide suggestions for **alternative funding solutions**, and support in the negotiation and implementation.



Corporate transaction and restructuring support

An independent expert view is crucial for complex corporate events given the introduction of criminal sanctions introduced in the Pension Schemes Act 2021 and their application to a potentially wider range of commercial activities.

We have significant experience in this area and can support clients by:

- understanding the impact of the event on the employer covenant and a scheme's position, including any 'material detriment';
- considering the appropriateness, level and nature of any mitigation required; and
- suggesting alternative transaction structures to minimise the employer covenant impact; providing support through negotiations and, potentially, TPR's clearance process.

CASE STUDY

We provided employer covenant advice to the owner of a global company with a significant DB pension scheme. Our client was divesting certain businesses and reinvesting in other group companies which had a covenant impact.

We helped our client understand the impact under the new TPR employer covenant tests, and devise and agree a mitigation package which contributed to the commercial success of the overall transaction strategy.

This included a package of measures to provide immediate security plus support over the medium-term. This would enable the scheme to transition to a lower risk funding and investment strategy and help ensure the longer-term pensions risk was manageable for the post transaction reduced size of the sponsoring employer.

Our team

Our employer covenant advisory team provide tailored solutions with integrated sector expertise.

Deloitte's employer covenant specialists take a pragmatic approach to help clients deal with complex pensions issues. We focus on providing a cost-efficient approach to covenant assessment, affordability, monitoring and corporate activity.

Our team benefit from the support of Deloitte industry specialists and a global network of restructuring professionals, financial advisors and business analysts.

This helps us to consider risks in the wider business context and so advise on broader solutions tailored to the specific covenant risks.

We provide employer covenant services from within our pension advisory services business. This team comprises of pensions, investment and covenant professionals, who provide clients with the full complement of integrated risk management framework advisory services with the support of Deloitte specialists from across the wider firm.



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